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1987

## Tax Return Practice Aids, 1986

American Institute of Certified Public Accountants. Tax Division

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## American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, NY 10036-8775, Telephone (212) 575-6200

Telex: 70-3396, Telecopier (212) 575-3846

January 10, 1987

Dear Practitioner:

I have enclosed the 1986 tax return practice aids which were prepared by the AICPA Tax Division. The package includes tax return preparation and review checklists for individual, partnership, S corporations, and C corporations.

These practice aids may be adapted to your particular practice and local law requirements, and they may be freely copied for use in your firm. Although much care and work have gone into the development of these aids, they are issued as drafts and are subject to change. Please review the checklists carefully and make any changes necessary for your particular use. Your suggestions for improvements are most welcome and should be sent to me at the above address.

I hope that these practice aids will be helpful to you. Tax Division members receive these checklists as soon as they are available each year as part of their membership benefits. If you are not a member, you may wish to consider joining to avoid separate charges and to expedite processing of these checklists, and to receive the other benefits of division membership. Please contact me at the above address if you would like information on Tax Division membership.

Have a good filing season.

Sincerely,

*William R. Stromsem*

William R. Stromsem  
Director  
AICPA Tax Division

Enclosures

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST - 1986 - FORM 1040

Client Name: \_\_\_\_\_ Client Number: \_\_\_\_\_

Interviewed by: \_\_\_\_\_ Date Completed/Hours: \_\_\_\_\_

Prepared by: \_\_\_\_\_ Date Completed/Hours: \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date Completed/Hours: \_\_\_\_\_

A) GENERAL INFORMATION	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
A1) Verify the accuracy of the taxpayer's name, social security number, address, occupation, filing status and number of exemptions. Obtain children's birth dates for the file.	_____	_____	_____	_____
A2) Review prior years' returns, review memos, workings papers and correspondence files.	_____	_____	_____	_____
A3) If taxpayer has been examined by the Internal Revenue Service:				
a) Obtain copies of the Revenue Agent's Reports.	_____	_____	_____	_____
b) Verify that the agent's adjustments have been entered in the taxpayer's records.	_____	_____	_____	_____
c) If any of the agent's adjustments affect income tax returns of years other than those audited make appropriate amendments.	_____	_____	_____	_____
d) File amended state tax returns to reflect adjustments.	_____	_____	_____	_____
A4) Check for the following carryover items:				
a) Net operating loss.	_____	_____	_____	_____
b) Capital loss.	_____	_____	_____	_____
c) Investment credit.	_____	_____	_____	_____
d) Charitable contributions.	_____	_____	_____	_____
e) Installment sales.	_____	_____	_____	_____
f) Jobs credit.	_____	_____	_____	_____
g) Foreign tax credit.	_____	_____	_____	_____
h) Retirement plan contribution.	_____	_____	_____	_____
i) Research tax credit.	_____	_____	_____	_____
j) General business credits.	_____	_____	_____	_____
k) Energy credits.	_____	_____	_____	_____

## INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1040

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Client Name: \_\_\_\_\_

A) GENERAL INFORMATION - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
1) ESOP credits	_____	_____	_____	_____
A5) Inquire whether taxpayer has any below-market rate term loans made after June 6, 1984, or demand loans outstanding after June 6, 1984 with:				
a) Family members (foregone interest is treated as a gift from the lender to the borrower and is subject to gift tax).	_____	_____	_____	_____
b) Foregone interest treated as income to lender or deduction of borrower.	_____	_____	_____	_____
c) A corporation in which the taxpayer is a shareholder (foregone interest is treated as if a dividend includable in income was paid by the corporation to the shareholder).	_____	_____	_____	_____
Determine if any of the available exceptions and/or amounts limitations apply.	_____	_____	_____	_____
A6) Inquire if taxpayer has received below-market term/demand loans after June 6, 1984. If so, entitled to imputed interest expense deduction?	_____	_____	_____	_____
<b>B) INCOME</b>				
B1) Determine taxability of any social security benefits, unemployment or disability income received.	_____	_____	_____	_____
B2) Determine if taxpayer received any taxable employee benefits during the year (e.g., PS58 costs, club dues, auto allowances). Determine whether other income is reported on Form W-2.	_____	_____	_____	_____
B3) Did taxpayer pay or receive alimony during the year; insure that child support payments are not picked up. If taxpayer paid alimony, include the recipient's name and social security number on Form 1040.	_____	_____	_____	_____
B4) Determine if taxpayer's rollover of a qualified retirement plan distribution was in accordance with the 60-day rule.	_____	_____	_____	_____
B5) Determine if taxpayer received a pension/ annuity and review for nontaxable portions.	_____	_____	_____	_____
B6) Consider the tax basis of a partnership or sub-chapter "S" corporation interest before claiming a loss, also at-risk limitations and hobby loss rules on sole-proprietor Schedule C.	_____	_____	_____	_____

## INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1040

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Client Name: \_\_\_\_\_

B) INCOME - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
B7) Determine if taxpayer has an "S" corporation loss carryforward not utilized due to insufficient basis and determine if additional basis has been generated in the current years to deduct all or a portion of the loss(es). Update the taxpayer carryforward schedule accordingly.	_____	_____	_____	_____
B8) If taxpayer is an "S" corporation shareholder who made loans to the corporation to utilize loss(es), check for gain on repayment.	_____	_____	_____	_____
B9) Designate and include income subject to self-employment tax (Schedule C, Partnership and Other Income).	_____	_____	_____	_____
B10) Compare sources of dividends and interest income with prior year's items. Identity of payor should agree with 1099 (i.e., income on securities held in brokerage account).	_____	_____	_____	_____
B11) Review dividends in order to segregate taxable, non-taxable, and capital gain portions.	_____	_____	_____	_____
B12) Update the taxpayer carryforward data schedule for any nontaxable dividends or dividends reinvested.	_____	_____	_____	_____
B13) Determine if taxpayer had investment income from foreign companies and if tax was withheld at the source.	_____	_____	_____	_____
B14) Exclude interest on state and municipal bonds from the federal return.	_____	_____	_____	_____
B15) Exclude interest on United States securities from the state return(s). Consider whether municipal bond interest excluded on the federal should be added back on the state return.	_____	_____	_____	_____
B16) Review reporting of any state tax refund(s) based on the tax benefit rule.	_____	_____	_____	_____
B17) If taxpayer was divorced or separated during the tax year:				
a) Obtain a copy of the corresponding agreement.	_____	_____	_____	_____
b) Determine the appropriate basis of any property transferred (generally asset transfers after July 18, 1984 are nontaxable and received a carryover basis).	_____	_____	_____	_____

## INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1040

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Client Name: \_\_\_\_\_

B) INCOME - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
c) For post July 18, 1984 divorces, determine if taxpayer received depreciable business assets which have been converted to non-business personal assets. If so, report depreciation recapture and related investment credit recapture.	_____	_____	_____	_____
d) For post July 18, 1984 divorces, review amounts of alimony received/paid and compare to prior years to determine if amount received in current year is \$10,000 less and, if so, calculate nontaxable/ deductible portion.	_____	_____	_____	_____
e) For 1986 custodial or non-custodial spouse, determine whether written authorization to claim dependent exemptions has been obtained or given. Attach written authorization for dependency exemption to non-custodial parent tax return.	_____	_____	_____	_____
B18) Sale or other dispositions of property				
a) For installment sales after June 6, 1984, determine that the full amount of depreciation recapture (both Sections 1245 and 1250 property) is reported in the year of sale even if no payments are received in that year.	_____	_____	_____	_____
b) Review installment sales for appropriate interest rates on debt instruments received in connection with sale. Determine whether there is any interest rate/income adjustments necessary.	_____	_____	_____	_____
c) If a residence or other property was sold or involuntarily converted during the year, consider the provisions relating to:				
- Non-recognition of gain or loss.	_____	_____	_____	_____
- Recapture of depreciation and/or investment tax credit (home office and related equipment).	_____	_____	_____	_____
d) Review the possibility of the wash sale rules being applicable to stock sales.	_____	_____	_____	_____
e) Inquire whether taxpayer has any worthless securities or other bad debts to be reflected in the current year return.	_____	_____	_____	_____

## INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1040

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Client Name: \_\_\_\_\_

B) INCOME - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
f) If any Section 1231 gains, determine amount, if any, subject to ordinary income treatment as a result of prior years Section 1231 losses.	_____	_____	_____	_____
g) Consider electing out of installment method for 1986 sales. (1986 is last year of 60% Section 1202 deduction.)	_____	_____	_____	_____
B19) For all business of the taxpayer:				
a) Are accounting methods used comparable to the preceding period.	_____	_____	_____	_____
b) Determine whether the individual has filed, by paper and/or magnetic media, all the informational returns (1099's) and whether they have included the personal use portion of autos, etc., in the employee's W-2. The filing requirements penalties in this area are significant, and the client should be appraised of his obligations if it is deemed necessary.	_____	_____	_____	_____
B20) Consider office in home deduction and corresponding limitations.	_____	_____	_____	_____
B21) If taxpayer recovered amounts previously deducted, determine if full benefit was received from prior years' deductions.	_____	_____	_____	_____
C) DEDUCTIONS				
C1) Determine if employer included 100% of value of use of auto, etc., on W-2:				
If yes, does client have evidence to support deduction for a portion of the included amount as business use.	_____	_____	_____	_____
C2) Determine the applicability of a moving expense deduction and whether the reimbursement is properly accounted for.	_____	_____	_____	_____
C3) Determine if taxpayer is entitled to a deduction for contributions to an IRA, Keogh or other qualified retirement plan and review possible alternatives with taxpayer before the return due date.				
a) Determine that IRA contributions have been or will be made no later than the due date for filing tax return, <u>without</u> extensions.	_____	_____	_____	_____

## INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1040

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Client Name: \_\_\_\_\_

C) DEDUCTIONS - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
b) Alimony income qualifies for IRA contributions.	_____	_____	_____	_____
C4) Consider two-earner married couple deduction (10% of the lesser of \$30,000 or the earned income of the lower earning spouse's income).	_____	_____	_____	_____
C5) If taxpayer does not itemize deductions, qualified charitable contributions may be deducted from adjusted gross income.	_____	_____	_____	_____
C6) Consider medical transportation deductions and medical and drug expense limitations.	_____	_____	_____	_____
C7) Consider the deduction of Medicare premiums when taxpayer is over 65 years of age.	_____	_____	_____	_____
C8) If medical insurance reimbursement for prior years has been received, determine whether such reimbursement is properly reported as income.	_____	_____	_____	_____
C9) Consider nontaxable income for increased sales tax deduction. Also, additional sales tax deduction for purchase of auto, boat, plane or home building materials.	_____	_____	_____	_____
C10) Determine if all interest deductions are properly classified as either investment or non-investment interest.	_____	_____	_____	_____
C11) If total investment interest expense exceeds \$10,000 complete Form 4952.	_____	_____	_____	_____
C12) Consider the contribution limitations.	_____	_____	_____	_____
C13) List all non-cash contributions separately. When the total claimed value of all contributed property exceeds \$500 and/or the value of one item exceeds \$5,000, complete the applicable section of Form 8283.	_____	_____	_____	_____
C14) Review all personal casualty gains and losses for the year to determine if there is a netting of all gains and losses attributable to casualties and thefts. Each occurrence is subject to the \$100 non-deductible minimum. If casualty gains exceed losses, then net gains are treated as long-term capital gains. If casualty losses exceed gains, then net losses in excess of 10% of AGI are allowed as itemized deductions.	_____	_____	_____	_____
C15) Consider vacation home deduction limitations.	_____	_____	_____	_____



INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1040

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Client Name: \_\_\_\_\_

D) DEPRECIATION	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
D1) Consider various depreciation methods and lives:				
a) Consider Section 179 election to expense certain depreciable assets up to \$5,000.	_____	_____	_____	_____
b) For acquisitions of real estate, other than low-income housing, after March 15, 1984, determine that ACRS depreciation deductions are computed using the appropriate 18 or 19 year life and percentage, or if straight-line depreciation is elected, over 18, 35, or 45 years. Note for acquisition after May 8, 1985, ACRS depreciation is 19 years.	_____	_____	_____	_____
c) Consider electing the optional straight-line method for qualifying ACRS property purchased during the year.	_____	_____	_____	_____
d) Consider electing 1987 depreciation methods for acquisitions after July 31, 1986.	_____	_____	_____	_____
D2) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider depreciation and investment credit recapture.	_____	_____	_____	_____
D3) For assets placed in service after June 18, 1984, that are used partly for business and partly for personal use (i.e. - autos, computers, airplanes, boats):				
a) For autos, determine that the depreciation deduction does not exceed the maximum allowable \$4,000 in the first year and \$6,000 in succeeding years <u>adjusted for any personal use</u> ; these amounts are reduced to \$3,200 and \$4,800, respectively, for autos placed in service after April 2, 1985.	_____	_____	_____	_____
b) For autos, determine that if business usage is less than 50%, depreciation is computed using the mandatory five-year straight-line method.	_____	_____	_____	_____
c) Determine that, for all other mixed-use property, if business usage is less than 50%, depreciation is computed using the mandatory 12-year straight-line method.	_____	_____	_____	_____
d) For leased vehicles and property, determine business, investments and personal usages and calculate appropriate income to be reported by referring to IRS tables.	_____	_____	_____	_____

INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1040

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Client Name: \_\_\_\_\_

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
D) DEPRECIATION - continued				
e) Ascertain whether taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____	_____
f) For listed property acquired after 1983, determine recapture if personal usage exceeds 50%.	_____	_____	_____	_____
D4) Determine if property/equipment leases are operating leases or capital leases.	_____	_____	_____	_____
D5) Form 4562:				
a) Reconcile all listed property to the form.	_____	_____	_____	_____
b) Reconcile all non-listed property to the form.	_____	_____	_____	_____
c) Complete all questions regarding personal use of listed property.	_____	_____	_____	_____
d) Reconcile totals on depreciation schedule to form.	_____	_____	_____	_____
e) Determine that all amortizable items are separately stated and the proper Code Section cited.	_____	_____	_____	_____
E) TAX COMPUTATION AND CREDITS				
E1) Consider the following tax credits:				
a) Child care credit.	_____	_____	_____	_____
b) Credit for the elderly.	_____	_____	_____	_____
c) Residential energy credit.	_____	_____	_____	_____
d) Political contribution credit.	_____	_____	_____	_____
e) Foreign tax credit.	_____	_____	_____	_____
f) Investment tax credit. (ITC repealed for property placed in service after 12/31/85, except for certain transition property.)	_____	_____	_____	_____
g) Jobs credit.	_____	_____	_____	_____
h) Credit for federal tax on gasoline, special fuels and lubricating oil.	_____	_____	_____	_____
E2) Determine if there is an earned income credit.	_____	_____	_____	_____

## INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1040

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Client Name: \_\_\_\_\_

E) TAX COMPUTATION AND CREDITS - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
E3) consider income averaging.	_____	_____	_____	_____
E4) Based upon nature of income and deductions, sale of assets, etc., is taxpayer subject to:				
a) Self-employment tax.	_____	_____	_____	_____
b) Alternative minimum tax.	_____	_____	_____	_____
c) Investment credit recapture.	_____	_____	_____	_____
d) Social Security tax on tip income.	_____	_____	_____	_____
e) Tax on IRA premature distributions or over-funding.	_____	_____	_____	_____
E5) Confirm with the client the amount(s) and date(s) of any federal (and state and local, where applicable) estimated tax deposit(s) for the year.	_____	_____	_____	_____
E6) Determine if client has paid excess FICA tax for which credit should be claimed.	_____	_____	_____	_____
E7) If withholding and estimated tax payments are less than 80% of the tax liability, file Form 2210.	_____	_____	_____	_____
E8) Consider changes needed in estimated tax for the forthcoming year and set-up estimated tax payments.	_____	_____	_____	_____
E9) Attach extension requests to tax returns.	_____	_____	_____	_____
<b>F) OTHER REQUIREMENTS</b>				
F1) If taxpayer sold partnership interest during year, was appropriate information given to partnership to enable it to prepare Form 8308.	_____	_____	_____	_____
F2) Determine whether client needs to complete IRS Form 8271, Investor Reporting of Tax Shelter Registration, for use by investor in reporting shelter I.D. Number. This registration and form can apply to any structure of business activity including partnerships, corporations, Schedule C or F activity, etc.	_____	_____	_____	_____
F3) Consider capitalizing carrying charges (interest, taxes, etc.) on non-productive property.	_____	_____	_____	_____
F5) Consider the election to forego the net operating loss carryback.	_____	_____	_____	_____

## INDIVIDUAL TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1040

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Client Name: \_\_\_\_\_

F) OTHER REQUIREMENTS - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
F6) Consider the election to treat retirement plan lump-sum distributions as ordinary income subject to ten-year averaging.	_____	_____	_____	_____
F7) Confirm that the client can substantiate by adequate records, as required under IRC Section 274(d), expenses claimed for entertainment, gifts, travel, conventions, and listed property.	_____	_____	_____	_____
F8) Section 6661 provides a <u>25% penalty</u> for <u>substantial understatement of tax liability</u> . If this penalty could result from a disallowance of any deduction or loss item on the return, then:	_____	_____	_____	_____
a) Does substantial authority exist for the deduction or loss item in question.	_____	_____	_____	_____
b) Is the item a tax shelter for purposes of Section 6661.	_____	_____	_____	_____
c) Advise client of 25% penalty in writing.	_____	_____	_____	_____
d) Review with taxpayer responsibility for contemporaneous record keeping for auto and other business/personal usage property.	_____	_____	_____	_____
F9) Inquire if taxpayer made gifts in excess of \$10,000 ( <u>or any applicable state minimum</u> ) to any individual during the year. Include gifts in connection with below-market loans to related parties.	_____	_____	_____	_____
F10) Advise client with HR-10 Plan of return filing requirements.	_____	_____	_____	_____
F11) Prepare state income tax return(s). Review each state's modification requirements.	_____	_____	_____	_____
F12) Prepare filing instruction letter to client.	_____	_____	_____	_____
F13) Advise clients to obtain children's birth dates and social security numbers (will be needed for 1987 returns to be filed in 1988).	_____	_____	_____	_____
F14) Note any tax planning suggestions below.	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS:

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST - 1986 - FORM 1065

Client Name: \_\_\_\_\_ Client Number: \_\_\_\_\_

Interviewed by: \_\_\_\_\_ Date Completed/Hours: \_\_\_\_\_

Prepared by: \_\_\_\_\_ Date Completed/Hours: \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date Completed/Hours: \_\_\_\_\_

THIS CHECKLIST IS DRAFTED FOR 1986 CALENDAR YEAR RETURNS

A) GENERAL INFORMATION	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
A1) Verify partnership name, address, fiscal year, business code, identification number and date business started.	_____	_____	_____	_____
A2) Review prior years' returns, review memos, workings papers and correspondence files. Inquire if any of the taxpayer's prior returns have been examined and determine the related effect of any adjustments on this year's return.	_____	_____	_____	_____
A3) If taxpayer has been examined by the Internal Revenue Service:				
a) Obtain copies of the Revenue Agent's Reports.	_____	_____	_____	_____
b) Verify that the agent's adjustments have been entered in the taxpayer's records.	_____	_____	_____	_____
c) If any of the agent's adjustments affect income tax returns of years other than those audited make appropriate amendments.	_____	_____	_____	_____
d) File amended state tax returns to reflect adjustments.	_____	_____	_____	_____
A4) Verify that a copy of the partnership agreement is in the permanent file or document why we think this is a partnership for federal income tax purposes and where authority for distribution of gain or loss originates as required under Section 704(B)	_____	_____	_____	_____
A5) Inquire whether taxpayer has made or received any below-market-rate term or demand loans after June 6, 1984 with any partners or individuals providing services. If so, determine respective distribution/interest income and compensation/interest expense.	_____	_____	_____	_____
A6) Determine method of accounting - cash, accrual or other.	_____	_____	_____	_____
A7) Determine if the partnership is a limited partnership.	_____	_____	_____	_____

## PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1065

Page -2-

Client Name: \_\_\_\_\_

A) GENERAL INFORMATION - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
A8) Review prior year's return Schedule M, columns D and E for items which may have an effect upon or require similar treatment in the current year.	_____	_____	_____	_____
A9) Check if any of the partners' addresses changed during the taxable year.	_____	_____	_____	_____
A10) Determine if there has been any change in partnership ownership during the year and document.	_____	_____	_____	_____
A11) If there has been a change in ownership by death of a partner, transfer between partners or sale of an interest, consider the optional adjustment to basis of partnership property under IRC Section 754.	_____	_____	_____	_____
A12) Determine whether property has been contributed by a partner after 3/31/84, and if so, that <u>all</u> items of income, gain, loss and deductions are shared among the partners to take into account the variation between the basis of the property to the partnership and its value (amended Section 704(c)(2)).	_____	_____	_____	_____
<b>B) INCOME</b>				
B1) Compare sources of dividend and interest income with prior year's return.	_____	_____	_____	_____
B2) Enter dividend income qualifying for exclusion under IRC Section 116 on Schedule K - Page 3.	_____	_____	_____	_____
B3) Enter non-qualifying dividends on Page 1.	_____	_____	_____	_____
B4) Enter non-qualifying interest on Page 1.	_____	_____	_____	_____
B5) Determine if there were any wash sales of stocks or securities during the tax year.	_____	_____	_____	_____
B6) Sale or other dispositions of property				
a) For installment sales after June 6, 1984, determine that the full amount of depreciation recapture (both Sections 1245 and 1250 property) is reported in the year of sale even if no payments are received in that year.	_____	_____	_____	_____
b) Review installment sales for appropriate interest rates on debt instruments received in connection with sale. Determine whether there is any interest rate/income adjustments necessary.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1065

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Client Name: \_\_\_\_\_

B) INCOME - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
c) If a residence or other property was sold or involuntarily converted during the year, consider the provisions relating to:				
- Non-recognition of gain or loss.	_____	_____	_____	_____
- Recapture of depreciation and/or investment tax credit (home office and related equipment).	_____	_____	_____	_____
d) Review the possibility of the wash sale rules being applicable to stock sales.	_____	_____	_____	_____
e) Inquire whether taxpayer has any worthless securities or other bad debts to be reflected in the current year return.	_____	_____	_____	_____
f) If any Section 1231 gains, determine amount, if any, subject to ordinary income treatment as a result of prior years Section 1231 losses.	_____	_____	_____	_____
g) Consider electing out of installment method for 1986 sales. (1986 is last year of 60% Section 1202 deduction.)	_____	_____	_____	_____
B7) Determine if there were any sales or exchanges during the year between the partnership and a partner and document.	_____	_____	_____	_____
C) DEDUCTIONS				
C1) Complete Schedule A or Schedule of Cost of Operations and verify that beginning and ending inventory agree with Schedule L.	_____	_____	_____	_____
C2) If rental property is subject to a net lease, do not deduct interest expense on Schedule H. Enter interest on Schedule K only, under investment interest. 5-year Rule and separate property rule.	_____	_____	_____	_____
C3) Determine that all guaranteed payments, determined without regard to income, to partners for services or use of capital have been deducted in computing ordinary income, or capitalized as required.	_____	_____	_____	_____
C4) Review taxpayer's procedure for reporting vacation pay in light of recent accounting changes.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1065

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Client Name: \_\_\_\_\_

C) DEDUCTIONS - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
C5) Inquire whether the client can substantiate by adequate records, as required under IRC Section 274(d), expenses claimed for entertainment, entertainment facilities, gifts, travel, conventions, and Section 38 property (personal/business use of automobiles, etc.)	_____	_____	_____	_____
C6) If taxpayer paid or incurred interest on indebtedness to purchase or carry investment property, do not report this interest on Page 1. Enter the amount as investment interest on Schedule K only.	_____	_____	_____	_____
C7) Verify that retirement plan contributions are within allowable limits and are properly reported on Schedule K and page one.	_____	_____	_____	_____
C8) Prepare a schedule of other deductions.	_____	_____	_____	_____
C9) Exclude from deductions premiums on partners' life insurance.	_____	_____	_____	_____
D) DEPRECIATION				
D1) Consider various depreciation methods and lives:				
a) Consider Section 179 election to expense certain depreciable assets up to \$5,000.	_____	_____	_____	_____
b) For acquisitions of real estate, other than low-income housing, after March 15, 1984, determine that ACRS depreciation deductions are computed using the appropriate 18 or 19 year life and percentage, or if straight-line depreciation is elected, over 18, 35, or 45 years. Note for acquisition after May 8, 1985, ACRS depreciation is 19 years.	_____	_____	_____	_____
c) Consider electing the optional straight-line method for qualifying ACRS property purchased during the year.	_____	_____	_____	_____
d) Consider electing 1987 depreciation methods for acquisitions after July 31, 1986.	_____	_____	_____	_____
D2) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider depreciation and investment credit recapture.	_____	_____	_____	_____



## PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1065

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Client Name: \_\_\_\_\_

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
D) DEPRECIATION - continued				
D3) For assets placed in service after June 18, 1984, that are used partly for business and partly for personal use (i.e. - autos, computers, airplanes, boats):				
a) For autos, determine that the depreciation deduction does not exceed the maximum allowable \$4,000 in the first year and \$6,000 in succeeding years <u>adjusted for any personal use</u> ; these amounts are reduced to \$3,200 and \$4,800, respectively, for autos placed in service after April 2, 1985.	_____	_____	_____	_____
b) For autos, determine that if business usage is less than 50%, depreciation is computed using the mandatory five-year straight-line method.	_____	_____	_____	_____
c) Determine that, for all other mixed-use property, if business usage is less than 50%, depreciation is computed using the mandatory 12-year straight-line method.	_____	_____	_____	_____
d) For leased vehicles and property, determine business, and personal usages and calculate appropriate income to be reported by referring to IRS tables.	_____	_____	_____	_____
e) Ascertain whether taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____	_____
f) For listed property acquired after 1983, determine recapture if personal usage exceeds 50%.	_____	_____	_____	_____
D4) Determine if property/equipment leases are operating leases or capital leases.	_____	_____	_____	_____
D5) Form 4562:				
a) Reconcile all listed property to the form.	_____	_____	_____	_____
b) Reconcile all non-listed property to the form.	_____	_____	_____	_____
c) Complete all questions regarding personal use of listed property.	_____	_____	_____	_____
d) Reconcile totals on depreciation schedule to form.	_____	_____	_____	_____

PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1065

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Client Name: \_\_\_\_\_

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
D) DEPRECIATION - continued				
e) Determine that all amortizable items are separately stated and the proper Code Section cited.	_____	_____	_____	_____
E) TAX COMPUTATION AND CREDITS				
E1) Segregate all tax preference items and list on the appropriate line of Schedule K.	_____	_____	_____	_____
E2) Separate recourse from non-recourse debt when preparing the balance sheet - Schedule L.	_____	_____	_____	_____
E3) Verify that beginning and ending total partners' capital figures on Schedule L agree with the reconciliation of partners' capital accounts - Schedule M.	_____	_____	_____	_____
E4) Prepare schedules that reflect each partners' share of property eligible for investment tax credit. Consider non-corporate lessor rules. (ITC repealed for property placed in service after 12/31/85 except for certain transition property.)	_____	_____	_____	_____
E5) Prepare schedules that reflect each partner's share of jobs credit, credit for alcohol used as fuel and other credits.	_____	_____	_____	_____
E6) Prepare schedules that reflect each partner's share of property subject to investment credit recapture.	_____	_____	_____	_____
E7) Determine allocation of partnership recourse and non-recourse liabilities and enter separately on each partner's Schedule K-1.	_____	_____	_____	_____
E8) Distribute each item on Schedule K among the K-1's in accordance with provisions of the Partnership agreement.	_____	_____	_____	_____
E9) Complete each partners' reconciliation of capital. Run tapes of each column to verify that the total agrees to the corresponding column on Schedule M - Form 1065.	_____	_____	_____	_____
E10) Reconcile income per books with taxable income.	_____	_____	_____	_____
E11) Prepare an analysis of partners' tax basis.	_____	_____	_____	_____
E12) Attach extension requests to tax return.	_____	_____	_____	_____

## PARTNERSHIP TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1065

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Client Name: \_\_\_\_\_

F) OTHER REQUIREMENTS	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
F1) Compute net earnings from self-employment and enter on Schedule K.	_____	_____	_____	_____
F2) If a tiered partnership arrangement exists, review Section 706(c)(2)(b) and 706(d) regarding allocation rules.	_____	_____	_____	_____
F3) Prepare the required state returns.	_____	_____	_____	_____
F4) Consider if a substantial understatement of income tax could result from a disallowance of any deduction of loss item on the return. If so:				
a) Does substantial authority exist for the deduction or loss item in question.	_____	_____	_____	_____
b) Is the item a tax shelter for purposes of Section 6661.	_____	_____	_____	_____
c) Advise client of 25% penalty in writing.	_____	_____	_____	_____
F5) If partnership interest was sold during the year, prepare appropriate Form 8308.	_____	_____	_____	_____
F6) Prepare filing instruction letter to client.	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS:

**"S" CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST - 1986 - FORM 1120S**

Client Name:\_\_\_\_\_ Client Number:\_\_\_\_\_

Interviewed by:\_\_\_\_\_ Date Completed/Hours:\_\_\_\_\_

Prepared by:\_\_\_\_\_ Date Completed/Hours:\_\_\_\_\_

Reviewed by:\_\_\_\_\_ Date Completed/Hours:\_\_\_\_\_

THIS CHECKLIST IS DRAFTED FOR 1986 CALENDAR YEAR RETURNS

A) GENERAL INFORMATION	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
A1) Verify corporate name, address, fiscal year, incorporation date, business code and identification number.	_____	_____	_____	_____
A2) Review prior years' returns, review memos, working papers and correspondence files.	_____	_____	_____	_____
A3) If the taxpayer has been examined by the Internal Revenue Service:				
a) Obtain copies of the Revenue Agent's Reports.	_____	_____	_____	_____
b) Verify that the agent's adjustments have been entered on the taxpayer's records.	_____	_____	_____	_____
c) If any of the agent's adjustments affect income tax returns of years other than those audited, make appropriate amendments.	_____	_____	_____	_____
d) File amended state tax returns to reflect adjustments.	_____	_____	_____	_____
A4) Inquire whether taxpayer has made or received any below-market-rate term or demand loans after June 6, 1984 with any shareholders or individuals providing services. If so, determine respective distribution/interest income and compensation/interest expense.	_____	_____	_____	_____
A5) Determine officers' compensation.	_____	_____	_____	_____
A6) Informational returns:				
a) Consider mag-tape filing requirements for 1099's and W-2's	_____	_____	_____	_____
b) Determine whether the Company has filed all the informational returns (1099's) and whether they have included the personal use portion of the Section 83 property in the employee's W-2.	_____	_____	_____	_____

"S" CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1120S

Page -2-

Client Name: \_\_\_\_\_

A) GENERAL INFORMATION - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
A7) Events triggering termination of "S" status:				
a) Determine that no disqualifying event has occurred related to excess number of shareholders, prohibited type of shareholder or issuance of a second class of stock.	_____	_____	_____	_____
b) Determine that termination is not triggered by excess passive income for three consecutive years, i.e., corporation has passive investment income greater than 25% of gross receipts <u>and</u> E & P from pre-1982 "C" corporation years.	_____	_____	_____	_____
c) Determine a greater than 50% cumulative change in ownership has not triggered termination by using a non-calendar year reporting period.	_____	_____	_____	_____
A8) Election/revocation/termination of "S" status:				
a) If "S" status <u>elected</u> during the current year:				
i) Confirm that IRS approval of the election Form 2553 has been received and is effective for the current year.	_____	_____	_____	_____
ii) Confirm that IRS approval of Form 1128 electing a year-end other than December 31 has been received.	_____	_____	_____	_____
b) If "S" status <u>revoked</u> during the current year:				
i) Confirm that a revocation election was properly filed.	_____	_____	_____	_____
ii) Determine whether the revocation is effective for the entire year or prospectively.	_____	_____	_____	_____
c) If "S" status <u>terminated</u> during the year:				
i) Verify allocation method - per day basis or actual. More than 50% cumulative change in shareholders requires actual.	_____	_____	_____	_____
ii) Consider "C" corporation estimated tax payments for the succeeding year based on the "S" corporation net income.	_____	_____	_____	_____

"S" CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1120S

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Client Name: \_\_\_\_\_

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
<b>B) INCOME</b>				
B1) Determine that payments received during the year on installment sales have been properly reflected.				
a) For installment sales after June 6, 1984, determine that the full amount of depreciation recapture is reported in the year of sale even if no payments are received in that year.	_____	_____	_____	_____
b) Consider electing out of installment treatment for current year sales.	_____	_____	_____	_____
B2) Determine if deferred income for book purposes should be included in taxable income.	_____	_____	_____	_____
B3) Examine fixed assets for any disposals:				
a) Reconcile to depreciation schedule.	_____	_____	_____	_____
b) Determine that related gains and losses are properly reported.	_____	_____	_____	_____
c) Consider investment tax credit recapture.	_____	_____	_____	_____
B4) Determine if there were any wash sales of securities during the tax year.	_____	_____	_____	_____
B5) Determine if any securities held by the taxpayer became worthless during the year.	_____	_____	_____	_____
B6) Exclude interest on state or local obligations from federal taxable income.	_____	_____	_____	_____
B7) Exclude interest on exempt state, local and federal obligations from state and local taxable income if applicable.	_____	_____	_____	_____
B8) Compare 1099 Forms received to reported sales, interest income, dividends, etc.	_____	_____	_____	_____
<b>C) DEDUCTIONS</b>				
C1) Reconcile W2's to the return.	_____	_____	_____	_____
C2) Determine that inventory has been properly costed and the valuation method disclosed.	_____	_____	_____	_____
C3) Charitable contributions:				
a) Determine that all contributions are to organizations recognized by the Treasury.	_____	_____	_____	_____

"S" CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1120S

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Client Name: \_\_\_\_\_

C) DEDUCTIONS - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
b) Consider limitations related to contributions of appreciated ordinary income property.	_____	_____	_____	_____
c) Obtain copies of minutes authorizing accrual of charitable contributions.	_____	_____	_____	_____
C4) Review deferred charges and prepaid expenses for currently deductible items.	_____	_____	_____	_____
C5) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis.	_____	_____	_____	_____
C6) Inquire whether the client can substantiate by adequate records, as required under IRC Section 274(d), expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions.	_____	_____	_____	_____
C7) If taxpayer maintains a pension and/or profit sharing plan and not contributed the maximum contribution each year, calculate the unfunded contribution carryover amount.	_____	_____	_____	_____
C8) Officers and shareholders:				
a) Identify expenses for officers' life insurance which are non-deductible.	_____	_____	_____	_____
b) Percentage of ownership, social security numbers, and addresses disclosed.	_____	_____	_____	_____
c) Loans to or from shareholders disclosed, and interest imputed if applicable.	_____	_____	_____	_____
d) Determine limitation on any losses during the year between related taxpayers/shareholders under Section 267(a)(1).	_____	_____	_____	_____
e) If officers used company automobiles personally, determine if reimbursement has been made to the company and document how the amount was computed.	_____	_____	_____	_____
C9) Review book expenses and determine that nondeductible items are not expensed on the returns such as a provision for a warranty reserve.	_____	_____	_____	_____

"S" CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1120S

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Client Name: \_\_\_\_\_

D) DEPRECIATION	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
D1) Consider various depreciation methods and lives:				
a) Consider Section 179 election to expense certain depreciable assets up to \$5,000.	_____	_____	_____	_____
b) For acquisitions of real estate, other than low-income housing, after March 15, 1984, determine that ACRS depreciation deductions are computed using the appropriate 18 or 19 year life and percentage, or if straight-line depreciation is elected, over 18, 35, or 45 years. Note for acquisition after May 8, 1985, ACRS depreciation is 19 years.	_____	_____	_____	_____
c) Consider electing the optional straight-line method for qualifying ACRS property purchased during the year.	_____	_____	_____	_____
d) Consider electing 1987 depreciation methods for acquisitions after July 31, 1986.	_____	_____	_____	_____
D2) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider depreciation and investment credit recapture.	_____	_____	_____	_____
D3) For assets placed in service after June 18, 1984, that are used partly for business and partly for personal use (i.e. - autos, computers, airplanes, boats):				
a) For autos, determine that the depreciation deduction does not exceed the maximum allowable \$4,000 in the first year and \$6,000 in succeeding years <u>adjusted for any personal use</u> ; these amounts are reduced to \$3,200 and \$4,800, respectively, for autos placed in service after April 2, 1985.	_____	_____	_____	_____
b) For autos, determine that if business usage is less than 50%, depreciation is computed using the mandatory five-year straight-line method.	_____	_____	_____	_____
c) Determine that, for all other mixed-use property, if business usage is less than 50%, depreciation is computed using the mandatory 12-year straight-line method.	_____	_____	_____	_____
d) For leased vehicles and property, determine business, and personal usages and calculate appropriate income to be reported by referring to IRS tables.	_____	_____	_____	_____



"S" CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1120S

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Client Name: \_\_\_\_\_

D) DEPRECIATION - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
e) Ascertain whether taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____	_____
F) For listed property acquired after 1983, determine recapture if <u>personal</u> usage exceeds 50%.	_____	_____	_____	_____
D4) Determine if property/equipment leases are operating leases or capital leases.	_____	_____	_____	_____
D5) Form 4562:				
a) Reconcile all listed property to the form.	_____	_____	_____	_____
b) Reconcile all non-listed property to the form.	_____	_____	_____	_____
c) Complete all questions regarding personal use of listed property.	_____	_____	_____	_____
d) Reconcile totals on depreciation schedule to form.	_____	_____	_____	_____
e) Determine that all amortizable items are separately stated and the proper Code Section listed.	_____	_____	_____	_____
E) TAX COMPUTATION AND CREDITS				
E1) Determine if taxpayer is eligible for the following tax credits:				
a) Foreign tax credit.	_____	_____	_____	_____
b) Investment credit. (ITC repealed in 1986 except for certain transition property.)	_____	_____	_____	_____
c) ESOP credit.	_____	_____	_____	_____
d) Alcohol fuel credit.	_____	_____	_____	_____
e) Jobs credit.	_____	_____	_____	_____
f) Credit for increasing research activities.	_____	_____	_____	_____
g) Orphan drug credit.	_____	_____	_____	_____
h) Possession tax credit.	_____	_____	_____	_____
E2) Attach extension requests to tax return.	_____	_____	_____	_____

"S" CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1120S

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Client Name: \_\_\_\_\_

E) TAX COMPUTATION AND CREDITS - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
E3) Tax at corporate level:				
a) Tax on excess net passive income:				
Applicable if passive investment income is greater than 25% of gross receipts <u>and</u> the corporation has E & P from pre-1982 "S" corporation years or any "C" years.	_____	_____	_____	_____
b) Tax on net capital gains:				
Special rules govern tax that could apply if the corporation was a "C" corp within the previous three years.	_____	_____	_____	_____
F) SHAREHOLDER INFORMATION				
F1) Shareholder allocations/limitations:				
a) Determine that items of income, deductions, credits, etc. are allocated to the shareholders on a per share, per day basis.	_____	_____	_____	_____
b) If stock transfers occurred during the year, consider allocations based on time of actual occurrence. Consent of all shareholders must be obtained.	_____	_____	_____	_____
c) Consider fringe benefit limitations for greater than 2% shareholders.	_____	_____	_____	_____
d) Determine that expenses and interest owed to shareholders are deducted in the year of payment.	_____	_____	_____	_____
e) Determine that any item that can affect the tax liability of any shareholder is separately reported from ordinary income on Schedules K and K-1.	_____	_____	_____	_____
f) For investment tax credit purposes, consider the "at risk" limitation provisions.	_____	_____	_____	_____
F2) Shareholder distributions/basis computations:				
a) Determine that equity increases and decreases (Schedule M) are properly segregated between:				
i) Shareholders undistributed PTI	_____	_____	_____	_____
ii) Accumulated adjustment account (AAA)	_____	_____	_____	_____

Client Name: \_\_\_\_\_

F) SHAREHOLDER INFORMATION - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
iii) Other adjustments account	_____	_____	_____	_____
iv) Retained earnings	_____	_____	_____	_____
b) Determine that distributions exceeding AAA for corporations with earnings and profit (E & P) are reported to shareholders as dividends to the extent of E & P.	_____	_____	_____	_____
c) If accounting for shareholder basis:				
i) Determine that shareholder's loss allocation is not deducted to the extent it exceeds his adjusted basis in stock and indebtedness owed to him.	_____	_____	_____	_____
ii) Determine that previously undeducted losses for tax years beginning after 1982 are allowed in a subsequent year in which the shareholder obtains basis.	_____	_____	_____	_____
iii) Determine that loans, loan repayments, contributions of capital and distributions between shareholders and the corporation properly adjust the basis of the shareholders stock and indebtedness owed to him.	_____	_____	_____	_____
iv) If distributions exceed a shareholder's basis, determine that the gain is properly reported as a capital gain.	_____	_____	_____	_____
v) Determine that corporate indebtedness owed to shareholders is evidenced by written instrument. In the event a shareholder's basis in the debt is reduced by his share of losses, subsequent repayment will be capital gain rather than ordinary income only if a written instrument exists.	_____	_____	_____	_____
d) Determine that gain is recognized and allocated to each shareholder for distributions of appreciated property other than in complete liquidation.	_____	_____	_____	_____
<b>G) OTHER REQUIREMENTS</b>				
G1) Prepare state tax returns. Compile apportionment data and verify that state law recognizes S status.	_____	_____	_____	_____

"S" CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1120S

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Client Name: \_\_\_\_\_

G) OTHER REQUIREMENTS - continued	DONE	NOT DONE	N/A	COMMENTS OR EXPLANATIONS
G2) If this is a first-year return, make the following elections:				
a) Method of accounting for bad debts.	_____	_____	_____	_____
b) Method of accounting for organization expense.	_____	_____	_____	_____
c) Cash vs. accrual method.	_____	_____	_____	_____
d) Election to amortize business start-up costs.	_____	_____	_____	_____
e) Election to expense intangible drilling costs.	_____	_____	_____	_____
f) Section 351, statement of transferred assets, where applicable.	_____	_____	_____	_____
G3) Cross reference the following items to the prior period return:				
a) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____	_____
b) Schedule M beginning balances to prior year's ending balance.	_____	_____	_____	_____
c) Detail listings Schedule L beginning balances to prior year's detail listings ending balances.	_____	_____	_____	_____
d) Beginning balance bad debt reserve to prior year's ending balance.	_____	_____	_____	_____
G4) Determine that book/tax accounting method differences are documented in the work paper files.	_____	_____	_____	_____
G5) Section 6661 provides a <u>25% penalty for substantial understatement of tax liability</u> . If this penalty could result from a disallowance of any deduction or loss item on the return, then:				
a) Does substantial authority exist for the deduction or loss item in question.	_____	_____	_____	_____
b) Is the item a tax shelter for purposes of Section 6661.	_____	_____	_____	_____
c) Advise client of 25% penalty in writing.	_____	_____	_____	_____
d) Review with taxpayer responsibility for contemporaneous record keeping for auto and other business/personal usage property.	_____	_____	_____	_____

"S" CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1120S

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Client Name: \_\_\_\_\_

G) OTHER REQUIREMENTS - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
G6) Prepare filing instruction letter to client.	_____	_____	_____	_____
G7) Advise client to update corporate minute book and provide copies for our file.	_____	_____	_____	_____
G8) Advise client to have retirement plans reviewed to determine compliance with recent tax law changes and appropriateness in light of changing corporate circumstances.	_____	_____	_____	_____
G9) Advise client that accrued retirement plan contributions must be made before filing return.	_____	_____	_____	_____
G10) Consider the impact of the 1986 Tax Reform Act for returns other than 1986 calendar year returns not addressed in this checklist.	_____	_____	_____	_____

COMMENTS OR EXPLANATIONS:

**CORPORATION TAX RETURN PREPARATION AND REVIEW CHECKLIST - 1986- FORM 1120**

Client Name:\_\_\_\_\_ Client Number:\_\_\_\_\_

Interviewed by:\_\_\_\_\_ Date Completed/Hours:\_\_\_\_\_

Prepared by:\_\_\_\_\_ Date Completed/Hours:\_\_\_\_\_

Reviewed by:\_\_\_\_\_ Date Completed/Hours:\_\_\_\_\_

THIS CHECKLIST IS DRAFTED FOR 1986 CALENDAR YEAR RETURNS

A) GENERAL INFORMATION	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
A1) Verify corporate name, address, fiscal year, incorporation date, business code and identification number.	_____	_____	_____	_____
A2) Review prior years' returns, review memos, working papers and correspondence files.	_____	_____	_____	_____
A3) If the taxpayer has been examined by the Internal Revenue Service:				
a) Obtain copies of the Revenue Agent's Reports.	_____	_____	_____	_____
b) Verify that the agent's adjustments have been entered on the taxpayer's records.	_____	_____	_____	_____
c) If any of the agent's adjustments affect income tax returns of years other than those audited, make appropriate amendments.	_____	_____	_____	_____
d) File amended state tax returns to reflect adjustments.	_____	_____	_____	_____
A4) Check for the following carryover items:				
a) Net operating loss.	_____	_____	_____	_____
b) Capital loss.	_____	_____	_____	_____
c) Investment credit.	_____	_____	_____	_____
d) Charitable contributions.	_____	_____	_____	_____
e) Installment sales.	_____	_____	_____	_____
f) Jobs credit.	_____	_____	_____	_____
g) Foreign tax credit.	_____	_____	_____	_____
h) Retirement plan contribution.	_____	_____	_____	_____
i) Research tax credit.	_____	_____	_____	_____
j) General business credits.	_____	_____	_____	_____
k) Energy credits	_____	_____	_____	_____

## CORPORATE TAX RETURN PREPARATION AND REVIEW CHECKLIST-1986 - FORM 1120

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Client Name: \_\_\_\_\_

A) GENERAL INFORMATION - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
1) ESOP tax credit	_____	_____	_____	_____
A5) Inquire whether taxpayer has made or received any below-market-rate term or demand loans after June 6, 1984 with any shareholders or individuals providing services. If so, determine respective distribution/interest income and compensation/interest expense.	_____	_____	_____	_____
A6) Determine officers' compensation and expense account data and complete Schedule E.	_____	_____	_____	_____
A7) Informational returns:				
a) Consider mag-tape filing requirements for 1099 and W-2	_____	_____	_____	_____
b) Determine whether the Company has filed all the informational returns (1099's) and whether they have included the personal use portion of the Section 83 property in the employee's W-2. The filing requirement penalties in this area are significant, and the client should be appraised of his obligations if that is deemed necessary.	_____	_____	_____	_____
B) INCOME				
B1) Determine that payments received during the year on installment sales have been properly reflected.				
a) For installment sales after June 6, 1984, determine that the full amount of depreciation recapture is reported in the year of sale even if no payments are received in that year.	_____	_____	_____	_____
b) For current year sales consider electing out of installment sales treatment.	_____	_____	_____	_____
B2) Determine if deferred income for book purposes should be included in taxable income.	_____	_____	_____	_____
B3) Examine fixed assets for any disposals:				
a) Reconcile to depreciation schedule.	_____	_____	_____	_____
b) Determine that related gains and losses are properly reported.	_____	_____	_____	_____
c) Consider investment tax credit recapture.	_____	_____	_____	_____

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Client Name: \_\_\_\_\_

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
<b>B) INCOME - continued</b>				
B4) Determine if there were any wash sales of securities during the tax year.	_____	_____	_____	_____
B5) Determine if any securities held by the taxpayer became worthless during the year.	_____	_____	_____	_____
B6) Exclude interest on state or local obligations from federal taxable income.	_____	_____	_____	_____
B7) Exclude interest on exempt state, local and federal obligations from state and local taxable income if applicable.	_____	_____	_____	_____
B8) Determine taxability of dividends and complete Schedule C.	_____	_____	_____	_____
B9) Compare Forms 1099 received for proper inclusion in sales, interest income, dividends, etc.	_____	_____	_____	_____
B10) If any Section 1231 gains, determine amount, if any, subject to ordinary income treatment as a result of prior years' Section 1231 losses.	_____	_____	_____	_____
<b>C) DEDUCTIONS</b>				
C1) Reconcile W2's to return.	_____	_____	_____	_____
C2) Determine that the inventory has been properly costed and the valuation method disclosed.	_____	_____	_____	_____
C3) Charitable contributions:				
a) Determine that all contributions are to organizations recognized by the Treasury.	_____	_____	_____	_____
b) Consider the contribution limitation and record any carryover amounts.	_____	_____	_____	_____
c) Consider limitation related to contributions of appreciated ordinary income property.	_____	_____	_____	_____
d) Obtain copies of minutes authorizing accrual of charitable contributions.	_____	_____	_____	_____
C4) Review deferred charges and prepaid expenses for currently deductible items.	_____	_____	_____	_____
C5) Review the taxpayer's vacation pay policy to determine if a deduction is allowable on the accrual basis.	_____	_____	_____	_____



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Client Name: \_\_\_\_\_

C) DEDUCTIONS - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
C6) Inquire whether the client can substantiate by adequate records, as required under IRC Section 274(d), expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions.	_____	_____	_____	_____
C7) If taxpayer maintains a pension and/or profit sharing plan and has not contributed the maximum contribution each year, calculate the unfunded contribution carryover amount.	_____	_____	_____	_____
C8) If a net operating loss deduction is claimed, prepare a supporting schedule to be attached to the return.	_____	_____	_____	_____
C9) Officers and shareholders:				
a) Identify expenses for officers' life insurance which are non-deductible.	_____	_____	_____	_____
b) Percentage of ownership, social security numbers, and addresses disclosed.	_____	_____	_____	_____
c) Loans to or from shareholders disclosed.	_____	_____	_____	_____
d) Determine limitation on any losses during the year between related taxpayers/shareholders under Section 267(a)(1).	_____	_____	_____	_____
e) If officers used company automobiles personally, determine if reimbursement has been made to the company and document how the amount was computed.	_____	_____	_____	_____
f) If there were any accruals at the year-end of interest, compensation or other expenses payable to an individual who owns more than 50% of taxpayer's stock directly or indirectly, determine that for tax purposes the deduction is deferred until the year in which it is actually paid.	_____	_____	_____	_____
D) DEPRECIATION				
D1) Consider various depreciation methods and lives:				
a) Consider Section 179 election to expense certain depreciable assets up to \$5,000.	_____	_____	_____	_____

Client Name: \_\_\_\_\_

D) DEPRECIATION - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
b) For acquisitions of real estate, other than low-income housing, after March 15, 1984, determine that ACRS depreciation deductions are computed using the appropriate 18 or 19 year life and percentage, or if straight-line depreciation is elected, over 18, 35, or 45 years. Note for acquisition after May 8, 1985, ACRS depreciation is 19 years.	_____	_____	_____	_____
c) Consider electing the optional straight-line method for qualifying ACRS property purchased during the year.	_____	_____	_____	_____
d) Consider electing 1987 depreciation methods for acquisitions after July 31, 1986.	_____	_____	_____	_____
D2) Make adjustments for depreciable assets which are demolished, obsolete, abandoned and/or out of service. Consider depreciation and investment credit recapture.	_____	_____	_____	_____
D3) For assets placed in service after June 18, 1984, that are used partly for business and partly for personal use (i.e. - autos, computers, airplanes, boats):	_____	_____	_____	_____
a) For autos, determine that the depreciation deduction does not exceed the maximum allowable \$4,000 in the first year and \$6,000 in succeeding years <u>adjusted for any personal use</u> ; these amounts are reduced to \$3,200 and \$4,800, respectively, for autos placed in service after April 2, 1985.	_____	_____	_____	_____
b) For autos, determine that if business usage is less than 50%, depreciation is computed using the mandatory five-year straight-line method.	_____	_____	_____	_____
c) Determine that, for all other mixed-use property, if business usage is less than 50%, depreciation is computed using the mandatory 12-year straight-line method.	_____	_____	_____	_____
d) For leased vehicles and property, determine business, and personal usages and calculate appropriate income to be reported by referring to IRS tables.	_____	_____	_____	_____
e) Ascertain whether taxpayer has kept the required records indicating the business and personal use of property.	_____	_____	_____	_____

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D) DEPRECIATION - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
f) For listed property acquired after 1983, determine recapture if personal usage exceeds 50%.	_____	_____	_____	_____
D4) Determine if property/equipment leases are operating leases or capital leases.	_____	_____	_____	_____
D5) Form 4562:				
a) Reconcile all listed property to the form.	_____	_____	_____	_____
b) Reconcile all non-listed property to the form.	_____	_____	_____	_____
c) Complete all questions regarding personal use of listed property.	_____	_____	_____	_____
d) Reconcile totals on depreciation schedule to form.	_____	_____	_____	_____
e) Determine that all amortizable items are separately stated and the proper Code Section cited.	_____	_____	_____	_____
E) TAX COMPUTATION AND CREDITS				
E1) Determine if alternative tax is applicable.	_____	_____	_____	_____
E2) If taxpayer has tax preference items, complete Form 4626.	_____	_____	_____	_____
E3) Determine if taxpayer is eligible for the following tax credits:				
a) Foreign tax credit.	_____	_____	_____	_____
b) Investment tax credit. (ITC repealed after 1985 except for certain transition property.)	_____	_____	_____	_____
c) ESOP credit.	_____	_____	_____	_____
d) Alcohol fuel credit.	_____	_____	_____	_____
e) Jobs credit.	_____	_____	_____	_____
f) Credit for increasing research activities.	_____	_____	_____	_____
g) Orphan drug credit.	_____	_____	_____	_____
h) Possession tax credit.	_____	_____	_____	_____

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Client Name: \_\_\_\_\_

E) TAX COMPUTATION AND CREDITS - continued	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
E4) Determine if personal holding company tax is applicable.	_____	_____	_____	_____
E5) Determine if accumulated earnings tax is applicable.	_____	_____	_____	_____
E6) If estimated tax deposits are less than 90% of the tax liability, prepare Form 2220.	_____	_____	_____	_____
E7) Set up estimated tax payments for the following year.	_____	_____	_____	_____
E8) If this is a consolidated tax return:				
a) Attach Form 851.	_____	_____	_____	_____
b) Attach Form 1122, only for member's first year.	_____	_____	_____	_____
c) Attach master apportionment schedule.	_____	_____	_____	_____
E9) Attach extension requests to tax return.	_____	_____	_____	_____
F) OTHER REQUIREMENTS				
F1) If there is a net operating loss in the current year, consider the election to forego the carryback.	_____	_____	_____	_____
F2) Prepare state tax returns. Compile apportionment data.	_____	_____	_____	_____
F3) Prepare Form 1139 for carrybacks.	_____	_____	_____	_____
F4) If this is a first-year return, make the following elections:				
a) Method of accounting for bad debts.	_____	_____	_____	_____
b) Method of accounting for organization expense.	_____	_____	_____	_____
c) Cash vs. accrual method.	_____	_____	_____	_____
d) Election to amortize business start-up costs.	_____	_____	_____	_____
e) Election to expense intangible drilling costs.	_____	_____	_____	_____
f) Section 351, statement of transferred assets, where applicable.	_____	_____	_____	_____

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Client Name: \_\_\_\_\_

	<u>DONE</u>	<u>NOT DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATIONS</u>
F) OTHER REQUIREMENTS - continued				
F5) Cross reference the following items to the prior period return:				
a) Schedule L beginning balances to prior year's ending balances.	_____	_____	_____	_____
b) Schedule M-2 beginning retained earnings to prior year's ending balance.	_____	_____	_____	_____
c) Detail listings Schedule L beginning balances to prior year's detail listings ending balances.	_____	_____	_____	_____
d) Beginning balance bad debt reserve to prior year's ending balance.	_____	_____	_____	_____
e) Page 1, Line 32(a) current year to Page 1, Line 36 prior year.	_____	_____	_____	_____
F6) Cross reference line items to supporting schedule within the return.	_____	_____	_____	_____
F7) Section 6661 provides a <u>25% penalty for substantial understatement of tax liability</u> . If this penalty could result from a disallowance of any deduction or loss item on the return, then:				
a) Does substantial authority exist for the deduction or loss item in question.	_____	_____	_____	_____
b) Is the item a tax shelter for purposes of Section 6661.	_____	_____	_____	_____
c) Advise client of 25% penalty in writing.	_____	_____	_____	_____
d) Review with taxpayer responsibility for contemporaneous record keeping for auto and other business/personal usage property.	_____	_____	_____	_____
F8) Prepare filing instruction letter to client.	_____	_____	_____	_____
F9) Advise client to update corporate minute book and provide copies for our file.	_____	_____	_____	_____
F10) Advise client to have his pension and/or profit-sharing plan reviewed to determine if they are in compliance in light of changing corporate circumstances and the recent tax law changes.	_____	_____	_____	_____
F11) Advise the client that a pension and/or profit-sharing plan contribution must be made before filing return.	_____	_____	_____	_____

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Client Name: \_\_\_\_\_

F) OTHER REQUIREMENTS - continued	NOT		COMMENTS OR
	<u>DONE</u>	<u>DONE</u>	
	<u>N/A</u>		<u>EXPLANATIONS</u>
F12) Consider the impact of the 1986 Tax Reform Act for returns other than 1986 calendar year returns not addressed in this checklist.	_____	_____	_____

COMMENTS OR EXPLANATIONS: